

Message Text

CONFIDENTIAL

PAGE 01 BONN 14756 01 OF 02 091412Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----029792 091413Z /53

O 091400Z SEP 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 1291
INFO USMISSION USBERLIN IMMEDIATE
AMEMBASSY LONDON IMMEDIATE
AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14756

EXDIS

E.O. 11652: GDS
TAGS: EAIR, PGOV, GW, WB, FR, UK, US
SUBJECT: CIVAIR: IGS FARE INCREASE

REF: A. BONN 12499, B. BONN 13524, C. BONN 14360

SUMMARY: AT BERLIN CIVIL AIR TRANSPORT ADVISORY GROUP (BCATAG) MEETING SEPTEMBER 8, GERMAN SIDE PROPOSED 7.8 PERCENT IGS FARE INCREASE WITH NO ADDITIONAL INCREASE BEFORE APRIL 1979. CAA'S AGREED TO GIVE THIS CONSIDERATION BUT SPECIFIED THAT THERE WOULD HAVE TO BE PROVISION FOR UNFORSEEN CONTINGENCY SUCH AS NEW, LARGE FUEL PRICE INCREASES. ALTERNATIVE GERMAN VIEW IS THAT INCREASE WITHOUT TIME LIMIT SHOULD ONLY BE FIVE PERCENT. WE BELIEVE FIRST PROPOSAL IS PREFERABLE AND SHOULD BE BASIS OF CAA'S FINAL RULING ON FARE INCREASE APPLICATION. END SUMMARY.

1. AT BCATAG MEETING SEPTEMBER 8 TO DISCUSS IGS FARE INCREASE, GERMAN SIDE PROPOSED GIVING AIRLINES FULL 7.8 PERCENT INCREASE REQUESTED BUT WITH PROVISIO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 14756 01 OF 02 091412Z

THAT THERE WOULD BE NO FURTHER INCREASE UNTIL APRIL 1, 1979. CAA'S AGREED TO GIVE THIS SERIOUS CONSIDERATION BUT SPECIFIED, AND GERMANS ACCEPTED, THAT THERE WOULD HAVE TO BE PROVISION FOR EXTRAORDINARY, UNFORSEEN COST INCREASES SUCH AS MIGHT RESULT FROM A NEW OPEC PRICE INCREASE, EXTREME RATES OF INFLATION, ETC. GERMANS FELT THEY COULD SELL THIS TO BERLIN PRESS AND

PUBLIC AND POINTED OUT IT SAVED FACE OF AIRLINES WHO WOULD NOT BE FORCED TO ACCEPT LOWER INCREASE THAN REQUESTED. FEDERAL MINISTRY OF TRANSPORTATION REPRESENTATIVE ASSURED THE MEETING THAT THERE WOULD BE NO LUFTHANSA FARE INCREASE BEFORE THE END OF 1978.

2. ON BASIS OF AIRLINE CASE AS PRESENTED AND FEDERAL MINISTRY OF TRANSPORTATION ANALYSIS, GERMAN SIDE FELT THAT ONLY THREE TO FOUR PERCENT INCREASE WAS JUSTIFIED. HOWEVER, IN VIEW OF FACT THAT THESE FIGURES WERE BASED ON CALENDAR 1977 AND FARE INCREASE WOULD NOT BE EFFECTIVE UNTIL AROUND OCTOBER 1, THEY AMENDED THIS TO FIVE PERCENT AS MAXIMUM JUSTIFIED INCREASE.

3. AIRLINES' REPLIES TO QUESTIONS RAISED BY GERMAN SIDE IN PREVIOUS BCATAG MEETING (REF A) WERE RATHER SKETCHY AND DISCUSSION OF THEM RESULTED IN NO CHANGES IN GERMAN POSITION. THEY SAID AIRLINES ESTIMATE OF 8.5 PERCENT INCREASE IN FUEL PRICES WAS TOO HIGH BY TWO PERCENT AND THAT INCREASE IN TOTAL AIRLINE COSTS ATTRIBUTABLE TO FUEL PRICE INCREASES FIGURED TO BE ONLY ABOUT ONE PERCENT. THEY AGREED THAT LANDING FEES HAD INCREASED BUT POINTED OUT THAT THESE FEES WERE ALREADY IN EFFECT THROUGH MUCH OF 1976 WHEN AIRLINES MADE A 12.3 PERCENT RETURN ON INVESTMENT. AIRLINES ARGUMENT THAT GREATER INCOME NEEDED TO PURCHASE NEW

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 14756 01 OF 02 091412Z

EQUIPMENT IN FUTURE DESCRIBED BY GERMAN SIDE AS AN ACCOUNTING METHODOLOGY THAT THEY COULD NOT PREVENT AIRLINES FROM ADOPTING, BUT NOTED THAT LUFTHANSA FOLLOWED STRAIGHT LINE DEPRECIATION METHOD FOR RECOUPING EQUIPMENT COSTS. GERMAN SIDE CONCEDED THAT SOME AIRLINE EXPENSES WERE OUTSIDE OF GERMANY AND WERE AFFECTED BY CURRENCY EXCHANGE RATE CHANGES, LOCAL INFLATION SITUATION, ETC. BUT POINTED OUT THAT NO DATA HAD BEEN PRESENTED ON THIS AND NONE WAS AVAILABLE TO THEM.

4. HELD OF FOREIGN OFFICE REPEATED HIS PLEA THAT GAP BETWEEN NURENBERG FARE INCREASE AND THAT FOR OTHER CITIES BE NARROWED. HE CONCEDED TECHNICAL JUSTIFICATION FOR DIFFERENTIATED INCREASE BUT SAID IT WOULD CAUSE POLITICAL AND PUBLIC RELATIONS PROBLEM. HE ASKED THAT THE INCREASE BE REDUCED TO AT LEAST 9.9 PERCENT, THE SAME AS REQUESTED FOR MUNICH.

5. COMMENT: IN EFFECT WE HAVE TWO SUGGESTIONS FROM GERMAN SIDE, THAT THERE BE OPEN-ENDED FIVE PERCENT INCREASE OR 7.8 PERCENT INCREASE WITH GUARANTEE OF

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 14756 02 OF 02 091410Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----029780 091414Z /41

O 091400Z SEP 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 1292
INFO USMISSION USBERLIN IMMEDIATE
AMEMBASSY LONDON IMMEDIATE
AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L SECTION 02 OF 02 BONN 14756

EXDIS

NO FUTHER INCREASE FOR EIGHTEEN MONTHS. WE FIND BOTH REASONABLE. THE 7.8 PERCENT, HOWEVER, IS THE MORE ATTRACTIVE ON SEVERAL GROUNDS. ALTHOUGH 7.8 PERCENT IS PROBABLY NOT JUSTIFIABLE ON BASIS OF 1977 COSTS AND REVENUE, IT SEEMS A REASONABLE FIGURE OVER THE LONGER PERIOD. IT IS SALEABLE TO THE FRG AND BERLIN GOVERNMENTS AND PROBABLY TO THE BERLIN PRESS AND PUBLIC. BOTH THE FRENCH AND UK GOVERNMENTS SEEM LIKELY TO APPROVE IT. IT SHOULD BE ACCEPTABLE TO THE AIRLINES; IF A 7.8 PERCENT INCREASE WERE APPROVED WITHOUT A TIME LIMITATION, IT IS UNLIKELY THAT A FURTHER INCREASE WOULD BE APPROVED MUCH BEFORE APRIL 1979 IN ANY CASE. ON THE OTHER HAND, A FIVE PERCENT INCREASE WOULD PROBABLY BRING A NEW APPLICATION EARLY IN 1978. THE SMALLER INCREASE WOULD BE OPPOSED BY THE UK AND PROBABLY THE FRENCH GOVERNMENT AS WELL.

6. SO FAR AS WE KNOW, THIS IS THE FIRST TIME IN A FARE INCREASE EXERCISE THAT THE GERMAN SIDE HAS BEEN CONSTRUCTIVE AND CREATIVE RATHER THAN JUST COMPLAINING ABOUT WHAT THE AIRLINES AND CAA'S WERE DOING. WE BELIEVE THIS IS A DIRECT RESULT OF THE NEW APPROACH
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 14756 02 OF 02 091410Z

USED THIS YEAR OF PROVIDING FIGURES IN ADVANCE OF A
FARE INCREASE PROPOSAL AND IN TAKING PAINS TO MAKE IT
KNOWN THAT GERMAN VIEWS ARE CONSIDERED BY THE CAA'S
AND THEIR CAPITALS BEFORE A DECISION IS REACHED ON THE
AIRLINES' APPLICATION. OTHER CIRCUMSTANCES PERMITTING,
WE BELIEVE IT IS DESIRABLE TO BE RESPONSIVE TO THE
GERMAN SUGGESTION FOR A 7.8 PERCENT, EIGHTEEN MONTH
FARE INCREASE. BY SO DOING WE HAVE AN EXCELLENT CHANCE
OF REMOVING, AT LEAST FOR EIGHTEEN MONTHS, A LONG
STANDING IRRITANT IN US RELATIONS WITH BERLIN AND THE
FRG.

ACTION REQUESTED: DEPARTMENT'S VIEWS ARE REQUESTED.
MEEHAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CIVIL AVIATION, AIR FARES, AIRLINES, MEETINGS
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Sep-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN14756
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770327-0265
Format: TEL
From: BONN
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770983/aaaacsr.tel
Line Count: 186
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f20c2c4a-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 77 BONN 12499, 77 BONN 13524, 77 BONN 14360
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1339016
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: IGS FARE INCREASE
TAGS: EAIR, PGOV, GE, WB, FR, UK, US
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/f20c2c4a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009